

State Revolving Loan Fund

Drinking Water

SRF

*South Carolina's
Intended Use Plan
for
Fiscal Year 2006*

**November 2005
Final**

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Attachment: List of Selected Projects for Funding

I. Introduction

The federal Safe Drinking Water Act (SDWA) amendments of 1996 authorized a Drinking Water State Revolving Fund (DWSRF) to assist public water systems with financing the cost of infrastructure needed to achieve or maintain compliance with the SDWA. Section 1452 of the SDWA authorizes the Administrator of the US Environmental Protection Agency (EPA) to award capitalization grants to states for the purpose of establishing a low interest loan program and other types of assistance to eligible water systems.

The South Carolina Department of Health and Environmental Control (DHEC) has primary enforcement responsibility (i.e. primacy) for carrying out the provisions of the SDWA. DHEC is the designated state agency to apply for and administer the capitalization grant for the DWSRF. The State Budget and Control Board (BCB), Office of Local Government conducts the financial functions of the DWSRF and makes loans to project sponsors. When this 2006 IUP was drafted, South Carolina's allotment of the DWSRF funds appropriated by Congress for Fiscal Year 2006 (FY 2006) was expected to be approximately \$8,300,000; in November the EPA notified the states of actual allotment amounts and South Carolina's allotment is \$8,312,600.

Section 1452(b) of the SDWA requires that an Intended Use Plan (IUP) be developed, reviewed by the public and submitted as part of the state's grant application package to EPA. The main purpose of the IUP is to describe how the state intends to use the funds in the DWSRF for the year and how those uses support the objectives of the SDWA in the protection of public health.

II. Goals

South Carolina has identified several short and long term goals to guide development of the DWSRF program and ensure maximum public health benefits. Effective with this IUP, the State will initiate a related discussion of "environmental outcome" goals and the means to measure them.

A. Short Term Goals

1. Continue attempts to increase participation of small water systems in the SRF loan program.
2. Continue to implement the State's EPA-approved Capacity Development Strategy by issuing at least 200 additional operating permits by June 30, 2006.
3. Continue to conduct source water assessments for new community and non-community public water systems and provide technical assistance to systems desiring to implement a voluntary source water protection program.
4. On an annual basis, increase the number of surface water treatment plants achieving the optimized performance goals of the State's Area-Wide Optimization Program. For more information concerning this program, go to www.cdwo.org.
5. Assist new and existing community and non-community public water systems in developing and implementing wellhead protection programs.

B. Long Term Goals

1. Maintain the fiscal integrity of the DWSRF and preserve the corpus of the fund to ensure continued growth of funding in perpetuity.

2. Enhance the viability of public water systems through continued implementation of the State's capacity development authority.

C. Environmental Outcomes and Measures

In authorizing the Safe Drinking Water Act and its 1996 amendments, Congress found that safe drinking water is essential to the protection of public health. With further direction from EPA, the State will begin to develop a set of specific "outcomes and measures" to enable the DWSRF to accomplish that ultimate goal.

III. Eligible Project Sponsors

An eligible DWSRF project sponsor means a county, municipality, special purpose district, commissioners of public works, or nonprofit corporation established under Title 33, Chapter 36 of the Code of Laws of South Carolina.

IV. Project Selection

The state must develop a [*comprehensive priority list*](#) of projects and identify those projects expected to receive funding from the FY 2006 capitalization grant (selected projects). The comprehensive list must include a description of the project, priority assigned to each project, expected terms of financial assistance, and the population served by the system. Only those projects on the comprehensive list of projects may be considered for a loan under the DWSRF program.

A. Priority Ranking System

Section 1452(b)(3) of the SDWA requires that the IUP, to the maximum extent practicable, give priority for use of the DWSRF to projects that:

- Address the most serious risk to human health;
- Are necessary to ensure compliance with the requirements of the Safe Drinking Water Act; and,
- Assist systems most in need on a per-household basis according to state affordability criteria.

To view or download the Drinking Water SRF Priority Ranking System, visit the SRF web site at www.scdhec.gov/water/html/srf.html and follow appropriate prompts.

B. Project Questionnaire

To be included in the State's [*comprehensive priority list*](#) of projects, an eligible project sponsor must complete a [*project questionnaire*](#) supplied by DHEC. A project sponsor may submit a completed questionnaire to the SRF Section of DHEC's Bureau of Water at any time. Once the questionnaire is received, DHEC staff will evaluate the project based on the ranking system described above. If eligible, the project will be added to the comprehensive priority list of projects, which is maintained in updated form by DHEC on its website. To view or download the project questionnaire or the comprehensive priority list, go to www.scdhec.gov/water/html/srf.html and follow appropriate prompts.

C. Selecting Projects for Funding

The selection of projects for funding will be based on the projects' ranking and the sponsors' readiness to proceed at the time the IUP is drafted. A project will be considered ready to proceed if the sponsor expects, by April 1, to have received a construction permit from the SRF Section

and to have submitted a complete SRF loan application to the BCB. The sponsor of such a project will have until April 1 to submit a complete loan application to insure its funding priority. After April 1, loan applications will be accepted on a first-come, first-served basis until the available funds are exhausted or until July 31, whichever occurs first. In the event the BCB receives complete applications for two or more projects on the same day, the highest-ranked project(s) will receive priority for funding. For large projects, DHEC and BCB reserve the right to impose a limit on the amount of any given DWSRF loan, regardless of ranking, and to consider a sponsor's ability to obtain financing from other sources.

Included in this Intended Use Plan as the Attachment, *List of Selected Projects for Funding*, are the DWSRF projects selected from the comprehensive priority list for funding during the next year.

D. Eligible Projects

1. Compliance and Public Health

According to Section 1452(a)(2) of the SDWA, the DWSRF may only provide assistance for expenditures (not including monitoring, operation and maintenance expenditures) of a type or category which will facilitate compliance with national primary drinking water regulations applicable to the system under section 1412 or otherwise significantly further the health protection objectives of the Act.

Projects to address SDWA health standards that have been exceeded or to prevent future violations of the rules are eligible for funding. These include projects to maintain compliance with existing regulations for contaminants with acute health effects (i.e., the Surface Water Treatment Rule, the Total Coliform Rule, and nitrate standard) and regulations for contaminants with chronic health effects (i.e., Lead and Copper Rule, Phases I, II, and V rules, total trihalomethanes, etc.).

Projects to replace aging infrastructure are also eligible if they are needed to maintain compliance or further the public health protection goals of the Act. Examples of these include projects to:

- Rehabilitate or develop sources (excluding reservoirs, dams, dam rehabilitation and water rights) to replace contaminated sources;
- Install or upgrade treatment facilities, if the project would improve the quality of drinking water to comply with primary or secondary standards;
- Install or upgrade storage facilities, including finished water reservoirs, to prevent microbiological contaminants from entering the water system; and,
- Install or replace transmission and distribution pipes to prevent contamination caused by leaks or breaks in the pipe, or improve water pressure to safe levels.

Projects to consolidate water supplies—for example, when individual homes or a public water supply is contaminated, or the system is unable to maintain compliance for financial or managerial reasons—are eligible for DWSRF assistance.

2. Land acquisition

Land is eligible only if it is integral to a project that is needed to meet or maintain compliance and further public health protection. In this instance, land that is integral to a

project is only the land needed to locate eligible treatment or distribution projects. In addition, the acquisition must be from a willing seller.

3. Planning and design of a drinking water project

The DWSRF may provide assistance for the costs of project planning and design (e.g., costs for consulting engineering services) as a component of a loan for construction.

4. Phasing of a drinking water project

To make construction and/or funding more manageable, a project may be divided into separately-funded phases or segments, at the option of the sponsor. However, to be DWSRF-eligible, any such phase or segment must be of reasonable size and scope; must feasibly address a water quality, public health or compliance deficiency; and, when constructed, must have the capability of being placed into immediate full operation, i.e., without its full operation being dependent on a subsequent project phase or segment or other outside operation yet to be completed. After a given project phase is funded, subsequent phases must stand separately in competing with other projects for priority list ranking in later fiscal years.

5. Restructuring of systems that are in noncompliance or that lack the technical, managerial and financial capability to maintain the system

The DWSRF may provide assistance to an eligible public water system to consolidate/connect with another public water system(s) only if the assistance will ensure that the system returns to and maintains compliance with SDWA requirements (section 1452(a)(3)(B) of the SDWA).

If the system does not have the technical, managerial, and/or financial capability to ensure compliance, or is in significant noncompliance, the system may receive assistance only if (1) the assistance will ensure compliance, or (2) the owner or operator of the system agrees to undertake appropriate changes in operations. These changes include consolidation or management changes that will ensure that the system has the technical, managerial, and financial capability to ensure and maintain compliance with SDWA requirements. DHEC may require the submission of a business plan as part of the preliminary engineering report for a project.

E. Projects Not Eligible for Funding

The DWSRF will not provide funding assistance for the following projects and activities:

- Dams, or rehabilitation of dams;
- Reservoirs, except for finished water reservoirs and those reservoirs that are part of the treatment process and are located on the property where the treatment facility is located;
- Laboratory fees for monitoring;
- Operation and maintenance expenses;
- Projects needed mainly for fire protection;
- Projects for systems that lack adequate technical, managerial and financial capability, unless assistance will ensure compliance;
- Projects for systems in significant noncompliance, unless funding will ensure compliance;

- Projects primarily intended to serve future growth;
- Refinancing of existing debt;
- Purchase price of another water system; and,
- Projects that would not result in the consolidation or regionalization of water systems when consolidation or regionalization is the most feasible alternative.

1. Lack of technical, managerial and financial capability

The DWSRF may not provide any type of assistance to a system that lacks the technical, managerial or financial capability to maintain SDWA compliance, unless the owner or operator of the system agrees to undertake feasible and appropriate changes in operation or if the use of the financial assistance from the DWSRF will ensure compliance over the long-term (section 1452(a)(3)(B)(I) of the SDWA).

2. Significant noncompliance

The DWSRF may not provide assistance to any system that is in significant noncompliance with any national drinking water regulation or variance unless the State conducts a review and determines that the project will enable the system to return to compliance and the system will maintain an adequate level of technical, managerial and financial capability to maintain compliance (section 1452(a)(3)(B)(I) of the SDWA).

3. Growth

The DWSRF cannot provide assistance to finance the expansion of any drinking water system solely in anticipation of future population growth (section 1452(g)(3)(C) of the SDWA). However, assistance may be provided to address population growth expected to occur over the useful life of the facility to be funded. In determining whether or not a project is eligible for assistance, DHEC will determine the primary purpose of the project. If the primary purpose is to supply or attract growth, the project is not eligible to receive DWSRF funds. If the primary purpose is to solve a compliance or public health problem, the entire project, including the portion necessary to accommodate a reasonable amount of growth over its useful life, is eligible.

F. Loan Applications

The Budget and Control Board will accept loan applications each fiscal year from October 1 through July 31. The issuance of a DHEC Permit to Construct, as a DWSRF project, is required for a complete loan application.

G. Bypass Procedure

In accordance with Section 1452(a)(2) of the SDWA, at least 15% of DWSRF must be used for assisting small water systems (systems serving <10,000 population). DHEC may bypass projects on the comprehensive priority list in order to comply with this requirement. DHEC may, in cases of an environmental emergency, (e.g., flood, hurricane) or in the case of an imminent hazard to public health (in accordance with section 44-55-60 of the South Carolina Code of Laws, as amended), add a project to the comprehensive priority list during the year without further public notice of the list.

H. Public Participation in the Development of the IUP

A "Notice of Availability" of this IUP was mailed to each project sponsor on the comprehensive priority list and other interested parties. In addition, a notice of availability was published on Sunday, August 28, 2005 in *The State*, *The Greenville News*, *The Post and Courier*, and the *Sun*

News (daily newspapers). During the public notice period, the notice and draft FY 2006 IUP were posted on the Department's Internet web site at <http://www.scdhec.gov/water/html/srf.html>. Interested parties were invited to review the documents and submit written comments regarding the draft IUP until September 28, 2005. No comments were received.

V. Disadvantaged Community Systems

Projects will normally be funded at the standard interest rate for a maximum term of 20 years; however, loan applicants which are considered disadvantaged community systems may be offered loans at even more favorable terms. Loan terms and conditions will be determined after DHEC has approved construction plans and specifications and the BCB has completed review of the financial loan application.

Disadvantaged community systems, subdivided into two levels, are public water systems which meet affordability criteria that are based on the 2000 median household income (MHI) of the water system's entire service area and on the level of the current or proposed user charge.

A. Level 1 Disadvantaged Community System

To qualify as a Level 1 Disadvantaged Community System, the MHI for the applicant's service area must be less than \$37,082 (the State MHI). If the applicant meets this criterion, the term of the loan may be extended up to 30 years (not to exceed the project's useful life), and the project would be funded at the standard interest rate.

B. Level 2 Disadvantaged Community System

To qualify as a Level 2 Disadvantaged Community System, the applicant must first meet the above Level 1 criterion. In addition, the project must necessitate a rate increase that would result in a user charge higher than the target user charge. Target user charge is defined as the annual residential user charge for water, based on 6,000 gallons per month, equal to at least 1.25% of the applicant's MHI.

If an applicant qualifies as a Level 2 Disadvantaged Community System, the loan term must first be extended to the project's maximum useful life, up to 30 years. If, after such term extension, user charge rates are still deemed unaffordable, then the interest rate will be reduced incrementally, as needed, to a minimum of 0%. Affordability determinations for establishing the appropriate interest rate for a specific project will be made by the BCB based on an evaluation of user charge rates, income levels, comparable providers and other relevant factors. If a project is still considered unaffordable after the maximum available interest rate subsidy, assistance will be provided in locating other potential funding sources that may be packaged with a loan.

VI. Distribution of Funds

A. Amount of Capitalization Grant for FY 2006

South Carolina's allotment of the DWSRF funds appropriated by Congress for FY 2006 is \$8,312,600.

B. State 20% Match Requirement

One condition of receiving the allotment is that the state must deposit in the DWSRF an amount equal to at least 20% of the total amount of the capitalization grant. South Carolina will deposit \$1,662,520 in the DWSRF.

C. Set-Aside for Administration of the DWSRF Program

The SDWA allows states to set aside a portion of the capitalization grant for the purpose of administering the program and a variety of other non-project activities. DHEC proposes to set aside 4% (\$332,504) of the grant for use in program management, including hiring staff, paying operational expenses and providing technical assistance to potential loan applicants.

D. Set-Aside for Technical Assistance for Small Systems

The SDWA allows states to set aside 2 percent of the capitalization grant for the purpose of providing technical assistance to small water systems serving 10,000 or fewer persons. South Carolina intends to set aside 2 percent (approximately \$166,252) of the FY 2006 capitalization grant to help fund a DHEC technical assistance team consisting of an engineer, an operator and an accountant. The purpose of this team is to help small water systems improve technical, managerial and financial capacity.

E. Set-Aside for Source Water Protection

DHEC will set aside \$300,000 from the FY 2006 capitalization grant to continue implementation of the state's Source Water Protection Program activities. As required, the State will match this set-aside dollar for dollar.

F. Total Funds Available for Loans for the Next Year

Balance of funds as of July 31, 2005	\$2,022,367
FY 2006 capitalization grant less set-asides	\$7,513,844
FY 2006 state matching funds	1,662,520
Estimated repayments for FY 2006	3,353,178
Estimated earnings for FY 2006	<u>495,000</u>
Total Funds Available	\$15,046,909

G. Interest Rates

Interest rates are established by the Budget & Control Board prior to September 30th of each year. For detailed information on current SRF interest rates, visit the BCB web site at <http://www.state.sc.us/lgovern/interest-rates.htm>, or go to the DHEC SRF web site and click on "New Low Interest Rates".

H. Maximum Loan to an Individual Project

In general, projects will not be subject to a loan maximum. However, in order to meet commitments for funding small systems, DHEC may adjust certain loan amounts to provide for such projects, depending upon which projects are ready to proceed.

Attachment

**SOUTH CAROLINA
FISCAL YEAR 2006 LIST OF SELECTED
PROJECTS FOR FUNDING**

SOUTH CAROLINA DRINKING WATER SRF 2006 Selected Projects

Rank	SPONSOR	DHEC PROJECT #	SERVICE POPULATION	ESTIMATED SRF LOAN AMOUNT	PROJECT DESCRIPTION	PROJECT STATUS
1	Seneca Light & Water Elevated Tanks & Water line replacement	SRF-3710002-01	24,482	\$2,042,601	Two 1MG Elevated tanks, replacement of 5400 LF of existing 6-inch with new 12-inch water line	Active
2	Anderson Regional Joint Water System Transmission Improvements	SRF-0420011-02	147,681	\$3,051,000	Transmission main crossing lake to Clemson pump station, underwater portion of 30" transmission main, transmission main paralleling existing mains from WTP	Active
3	Anderson Regional Joint Water System Transmission Improvements	SRF-0420011-03	147,681	\$1,784,000	Transmission main to Homeland Park area, service line to homeland park meter, transmission main in Broadway area.	Active
4	Anderson Regional Joint Water System Transmission Improvements	SRF-0420011-04	147,681	\$5,791,000	Transmission main thru W. Anderson, new 0.5 MG elevated storage tank, transmission main in Hammond service area, etc.	Active

Total= \$ 12,668,601